The Honorable Christine Todd Whitman  
Governor of New Jersey

The Honorable Donald T. DiFrancesco  
President of the Senate

The Honorable Jack Collins  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Human Services, Division of Developmental Disabilities, Community Programs-Grants-In-Aid for the period July 1, 1996 to September 30, 1998.

If you would like a personal briefing, please call me at (609) 292-3700.

Peter M. Guilfoyle  
Assistant State Auditor  
February 1, 1999
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Scope
We have completed an audit of the Department of Human Services, Division of Developmental Disabilities, Community Programs - Grants-In-Aid for the period July 1, 1996 to September 30, 1998. Our audit included financial activities accounted for in the state’s General Fund and Casino Revenue Fund.

Total expenditures for the community programs during the audit period were $829 million. The prime objectives of the community programs is to provide prompt and effective care, treatment, training and habilitation of developmentally disabled individuals living in the community or in a private institutional environment.

Objectives
The objectives of our audit were to determine whether financial transactions were related to the programs, were reasonable and were recorded properly in the accounting systems. Resolution of significant conditions noted in our prior report and related in our current scope was also reviewed.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology
Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the community programs. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and internal controls.
A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were selected judgmentally and randomly.

To ascertain the status of findings included in our prior report and relative to our current scope, we identified corrective action, if any, taken by the division and walked through the system to determine if the corrective action was effective.

Conclusions

We found that the financial transactions included in our testing were related to the community programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention. We also noted that the division has taken steps to resolve the issues noted in our prior report. These issues have been updated in this report.
Support Services Contracts

The Division of Developmental Disabilities (DDD) had contracts with 24 nonprofit organizations and foundations for special programs. These 24 contracts consisted of 47 programs totaling $9.7 million for fiscal year 1998. The contracts were for support services such as day services and job and family support, as opposed to residential care contracts where the division contracted for the placement of an individual client (slot). The contracts were based on cost reimbursement in which providers are required to maintain a certain level of service. Our review showed a weakness in the monitoring of these contracts and whether the providers were fulfilling their level of service commitments. Contract requirements provide for site reviews by the division through announced and unannounced visits. In our review of 27 programs totaling $4.5 million, we noted 24 programs totaling $4.1 million did not have performance monitoring site reviews.

Some programs not monitored did not reach the required level of service. In one case, the contracted level of service for fiscal years 1997 and 1998 was for 17,800 clients totaling $601,000 and $620,000, respectively. Based on our review of the provider’s Medicaid reimbursements for the two fiscal years, we estimate the provider was only serving 7,025 clients.

Recommendation

We recommend that the division monitor their contracts to ensure providers are meeting contract requirements and levels of service.

Auditee’s Response

The Division agrees with the recommendation made by the auditors. Site reviews by Division staff to determine whether providers were fulfilling their level of service commitments have been difficult to accomplish due to a shortage of resources in the contract administration area. However, the Division expects significant improvement in this area with the addition of contract administration staff in each region. One-half of the additional staff have been hired and the remaining half should be in their positions by the end of the current fiscal year. These much-needed resources will enable
the Division to more closely monitor these support services programs.

Collection and Analysis of Relevant Data

Ongoing data collection and analysis need to be implemented.

The division has no procedure for the effective collection and analysis of relevant data about clients and its providers. Group home contracts total $240 million annually. The cost per client for these services ranges from $20,000 to $200,000. Skill Development type sponsors receive approximately $14,000 annually to care for clients living in their home versus the average cost for a group home which is $50,000. Data analysis could be used to identify group home clients that could be better suited for a Skill Development type environment which would save approximately $36,000 annually and provide equivalent or better care. This would also help reduce the waiting list for community residential services. However, this data must be meaningful, accurate and used to monitor client services and related costs.

During our analysis of inventory data we noted the data is not always accurate as to classification of service provided. Division standards and regulations regarding the type of services a client should receive are general in nature and very flexible. Determination of what services a client is to receive is made at the division’s regional offices and open to the interpretation of DDD employees, the client and their family. This is needed to properly serve clients because no client has the same needs, but the division should monitor the services and related costs authorized by the regional offices.

Recommendation

The division should develop policies and procedures for the collection and analysis of relevant data pertaining to client services and develop a methodology whereby the cost of client services can be associated with the client’s needs and disability.
Auditee’s Response

The Division has been aggressively working on developing procedures for the effective collection and analysis of relevant data, including services and related costs, with respect to clients and provider agencies. This capability should be available as a result of the new Division Information System.

In the past, the Division’s database was not complete. We had a significant amount of client and provider data, but the collection and management of this data was not efficient. Consequently, a comprehensive review of Division information needs was conducted by our M.I.S. unit. This review encompassed all sources of data including regional offices, contract administration units, central office C.C.W. unit, etc.

The contract inventory, attendance data and federal claiming aspects of the new Division Information System are currently being implemented and will be in place by the end of the current fiscal year. It is anticipated this new system will correct past inefficiencies.

Contract Closeouts

The Division of Developmental Disabilities contracts with provider agencies to render services to DDD clients living in the community. The Office of Contract Compliance (OCC) within the division is responsible for monitoring the timely receipt of the provider’s independent auditor’s report. The Department of Human Services Policy Circular P7.01 and Information Memorandum P97-1 requires that the final expenditure and independent auditor’s reports be filed within 120 days of the contract termination. OCC is then responsible for reconciling the reported expenditures to the approved contract budget and calculating the amount of overpayment, if any, to be recovered.

During our review of contracts that terminated on June 30, 1997, we noted that 30 of 74 providers did not submit their final report of expenditures and 50 did not submit their independent auditor’s report as of April 14, 1998 (six months after the filing deadline). The delin-
Frequency of these reports results in potential questioned costs and underspending not being reviewed and recovered in a timely manner. To offset the untimeliness of these reports, recoveries totaling approximately $1.2 million for contracts ending on June 30, 1997 have been made from providers that submitted their report of expenditures without the independent auditor’s report. This is a significant improvement since the prior audit.

**Recommendation**

The division’s Office of Contract Compliance should encourage providers to submit their final report of expenditures and the independent auditor’s report in a timely manner.

**Auditee’s Response**

The Division appreciates the acknowledgments made by the OLS Auditors that we have made recoveries of approximately $1.2 million and that this represented a significant improvement since the last audit.

The one hundred twenty (120) day deadline to submit the independent audit is a difficult one for providers to meet. Consequently, the Department and the Division have been generous with granting extensions of time to submit the independent audit. Recognizing the delay caused by these extensions the Office of Contract Compliance instituted the contract financial reconciliation process thus ensuring the timely recovery of underspending which resulted in the $1.2 million mentioned above.

The Division’s Office of Contract Compliance, with the assistance of the Community Care Waiver Unit and the Department’s Office of Auditing, will continue to vigorously encourage providers to submit their final report of expenditures and independent auditors’ reports in a timely manner. Additionally, the Office of Contract Compliance will continue to utilize the contract financial reconciliation process, which will result in the timely recovery of underspending.
Family Support Program

The New Jersey Family Support Act of 1993 was enacted to help support families with developmentally disabled members in their homes. The act and administrative code (N.J.A.C. 10:46A) set forth program guidelines for the implementation and administration of a family support system. Our review of the program and regulations showed noncompliance and control weaknesses in the following areas.

The act requires income guidelines to be established by the Commissioner of the Department of Human Services. However, the income criteria has not been established for the program and included in the department’s administrative code. In addition, according to the act, no more than 10 percent of the funds will be allocated for administration. We noted while reviewing the administrative procedures for the family support service system that the department’s administrative code did not include any administrative cost guidelines as required by the act.

Part of the purpose of the family support program (voucher stipend sub program) is to give financial assistance to a client or family to meet a specific need. Approximately $2 million was expended annually for this purpose with individual stipends ranging from a few hundred dollars to as much as $30,000. The division did not determine if these funds were being used for the approved intended purpose, because neither the division nor provider require receipts or documentation from the family as to how the funds were utilized.

Recommendation

The division should establish income guidelines for the family support program and establish administrative cost guidelines in accordance with the act. The division should also monitor that these funds are being used for their intended purpose.

Auditee’s Response

The Family Support Act and the Regulations state that the Commissioner of the Department of Human Services “shall establish income, need, and other criteria to ensure that the expenditures for the system are within the limits of the funds available for the purposes of the
act.” The Division of Developmental Disabilities has established criteria, financial guidelines and contractual processes to ensure that the expenditures for the system are within the limits of the funds available for the purposes of the Act. All Family Support services are based on assessed need and availability of resources. The Division will submit proposed guidelines and other criteria to the Commissioner for discussion and anticipated approval.

The Family Support Act states that programs should be accessible and flexible, and families should define their own needs and select their own services. The cash subsidy program allows families the option to do this. This program is based upon the premise that families know what they need and will provide it given that funds are available to them. Since the program’s spending criteria allows the funds to be utilized for any expenditure, the need for receipts is negated. The approach is not unlike similar programs in other states which also do not require receipts.

Mortgage Rates

Refinancing existing mortgages could save approximately $100,000.

Numerous community service program interest rates being charged on existing mortgages owed by group homes and adult training centers are in the 8 to 9 percent range. These costs are reimbursed to providers through the contractual process. Based on information obtained from the Federal Reserve Bank (New York), Bank Rate Monitor and NJ Economic Development Authority, and the prime rate quoted in the Wall Street Journal (on which many 30 year mortgage rates are based), these mortgages could be refinanced with lower interest rates. Funds are available from the New Jersey Economic Development Authority with an interest rate in the 6 to 7 percent range. We estimate the division could save $120,000 annually in interest costs.

The division has taken steps to seek lower interest rates. However, they are using a consultant at a cost of approximately $100,000 for this service. The division awarded this contract on their own which is a violation
of Circular Letter 96-23-GSA, requiring services exceeding $10,500 to be awarded by the Purchase Bureau. As of the end of the audit, the division has not recouped any cost savings from this agreement.

**Recommendation**

The division should develop procedures necessary to assist its providers in obtaining refinancing of mortgages at lower rates than are currently being paid and comply with established circular letters.

**Auditee’s Response**

The Division agrees with the finding and recommendation. After reviewing this situation, the contract with the Alliance for the Betterment of Citizens with Disabilities should have been awarded through the Purchase Bureau. This contract has expired, and there are no plans to renew it. The Division has reviewed its own and GSA’s Policies and Procedures regarding contracting and has emphasized the importance of compliance with these policies and procedures with all appropriate staff.

Regarding the recovery of cost savings resulting from the contract, the contract resulted in the creation of a composite bond valued in excess of $9,000,000.00. The existence of the bond provides an option to the Division providers to re-mortgage at lower rates now and in the future, which would result in lowering their costs which are currently reimbursed in the service contracts. The extent that Division providers utilize this option would determine the savings generated.

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**Self Determination**

The Governor’s Inclusion Initiative on Self Determination was launched in September 1997. This program provides clients and their families the opportunity to determine how an individual budget can be used to purchase a wide variety of support services based solely on the needs of the individual. These basic items include such necessities as nursing care, doctor’s fees, medical equipment and supplies, rent, utilities, food, clothing, transportation, and recreation. As of March
1998, there were 42 approved individual client budgets totaling $1.9 million.

During our review of the program, we noted the division has not established a cap on the costs incurred per client. The current budget plans have costs ranging from $16,500 to $88,700. In addition, the division has not established guidelines for allowable program costs to determine what items purchased meet or exceed the basic need criteria. In a review of six personal support plan budgets, we noted that one plan contained items that did not appear to be basic necessities, but rather more of a luxury. The lack of a ceiling on the client budget plans and a list of nonallowable program expenses has contributed to a large fluctuation in client budget plan costs, as well as the questionable items described above in one client’s plan.

**Recommendation**

The division should establish guidelines for the self determination program to provide budget ceilings on cost and to define allowable and nonallowable program expenses.

**Auditee’s Response**

At the onset of this program, completed budget caps per individual were not established, but instead an average of $40,000.00 of Division funding per person for the overall program was established. However, shortly into the pilot process, caps for each individual were established at a rate of what it would have cost the Division to provide services for that individual in one of our traditional programs such as a group home, supervised apartment or supported living.

With respect to establishing allowable cost guidelines, the Division’s Policy Action Committee and Division staff are formalizing their recommendations for presentation to and anticipated approval by my office.